

### Options to Address the Transit Fare Revenue Gap

At the September 10, 2024 City Council meeting, Council passed a motion that Administration bring forward options to the Fall 2024 Supplemental Operating Budget Adjustment for reallocation within the existing operating budget to support the low income transit pass, Ride Transit Program, on a one-time basis in the amount of \$10.2 million.

A combined total of \$26.0 million transit revenue shortfall is projected for 2025 and 2026, including \$20.4 million related to the Ride Transit Program, and a remaining gap of \$5.6 million. As discussed in City Operations report CO02390, Ride Transit Program Funding Update, presented to Executive Committee on May 23, 2024, the remaining gap is due primarily to changes to travel patterns post-pandemic experienced across jurisdictions in Canada - including a portion of riders working primarily from home or hybrid at a physical work location and from home. Based on current projections, Administration does not expect that fare revenue will reach budgeted levels before the 2027-2030 budget cycle.

In consideration of this motion, Administration has prepared the following options to address the revenue gap. These options are proposed to address the total ETS fare revenue gap of \$13.0 million annually. Council may choose to implement a combination of these options to address the full gap.

#### **1. One-time use of LRT Reserve**

Council could choose to transfer one-time from the LRT Reserve to the ETS fare revenue budget, until such time as transit fare revenue recovers to budgeted level or for the remainder of the 2025-2026 budget cycle. Using the LRT Reserve for this purpose would require an exemption to Council Policy C217E - Reserve and Equity Accounts.

At the end of 2023, the LRT Reserve balance was \$151.6 million, partially due to one-time funds due to project delays and savings. A significant amount of that balance is already earmarked for contractually obligated Valley Line Southeast (VLSE) P3 payments to be made during the remaining term of the P3 agreement (until December 2050).

Administration is currently preparing an update to the LRT Reserve policy, which is anticipated to be discussed at Council the first half of 2025. This update includes a more detailed analysis of potential risks, available funds, minimum balances and options for where they could be best directed towards. These options will include the use of available current and future funds in the reserve to address significant shortfalls in the ideal renewal investment forecast over the next 30 years. If Council chooses to use the LRT

reserve on a one-time basis towards ETS fare revenue shortfalls, it will reduce the amount available to help alleviate the City’s overall renewal funding gap.

Alternatively, Council may choose to fund a portion of the shortfall with the LRT Reserve, and the remaining shortfall could be addressed through deferred transit service improvements, increasing transit fares, or tax levy.

**2. Defer planned transit service improvements**

As part of the Fall 2023 Supplemental Operating Budget Adjustment, Council approved the addition of 50,000 annual transit service hours to address a portion of the identified current state gap of 260,000 annual service hours. These additional service hours were supported by the investment in 20 additional buses, funded by the LRT reserve, as well as operating budget for the lease of a satellite garage.

To address the ETS fare revenue gap, Council could choose to defer these planned transit service improvements to a future date. Administration has prepared three scenarios for deferring these service improvements as follows:

- Delay the service hours being implemented in April 2025 by five months, to the September 2025 schedule change;
- Delay the service hours being implemented in April 2025 by a full year, to April 2026;
- Indefinitely delay bus service enhancements.

The following table illustrates how much of the ETS fare revenue gap would be reduced by each scenarios costs savings in 2025 and 2026:

Service Enhancement Deferral Scenarios		Budget Impact (\$Millions)		
		2025	2026	Total
<b>Projected Fare Revenue Budget Variance</b>		<b>(\$13.0)</b>	<b>(\$13.0)</b>	<b>(\$26.0)</b>
Delay bus service enhancement <b>5 months</b>	<b>Scenario #1 Cost Savings</b>	\$2.0	\$0	\$2.0
	<b>Remaining Shortfall</b>	<b>(\$11.0)</b>	<b>(\$13.0)</b>	<b>(\$24.0)</b>
	<b>FTE Impact*</b>	14.6	0	
Delay bus service enhancement <b>12 months</b>	<b>Scenario #2 Cost Savings</b>	\$4.8	\$0.8	\$5.6
	<b>Remaining Shortfall</b>	<b>(\$8.2)</b>	<b>(\$12.2)</b>	<b>(\$20.4)</b>
	<b>FTE Impact</b>	45.6	1.5	
Delay bus service	<b>Scenario #3 Cost Savings</b>	\$4.8	\$5.6	\$10.4

## Attachment 7

enhancement <i>indefinitely*</i>	<b>Remaining Shortfall</b>	<b>(\$8.2)</b>	<b>(\$7.4)</b>	<b>(\$15.6)</b>
	<b>FTE Impact</b>	45.6	47.0	

\*FTE impacts would be managed through monthly attrition in the Transit Operator workforce.

These savings are net of funding already expended for the service enhancements, including facility lease and maintenance costs for the satellite garage facility, and capital costs for the 20 additional buses that have already been purchased to deliver this service. The remaining revenue shortfall could be addressed through the LRT reserve, increasing transit fares, or tax levy.

### 3. Revisit transit fare prices

Council could choose to implement a transit fare increase in addition to what is already approved in the four year budget for February 2025. Should Council wish to pursue this option, Administration would need direction from Council on what fare categories to include in a fare increase scenario.

At the August 28, 2024 Executive Committee meeting in City Operations report CO02505, Ride Transit Program Funding Gap, two transit fare increase scenarios were presented. The following tables illustrate the additional revenue that could be generated by increasing transit fares and the estimated remaining fare revenue shortfall after their implementation:

Fare Increase Scenario #1	2025	2026	Total
Projected Fare Revenue Budget Variance	(\$13.0)	(\$13.0)	(\$26.0)
Additional Revenue Generated	\$4.2	\$4.3	\$8.5
Scenario #1: <i>Arc single trip rate increases to \$3.25, standard adult monthly fare cap increases to \$110. Cash fare increases to \$4.00. Youth and seniors' monthly cap set at 65 per cent (\$71.50) of the standard adult fare cap. Ride Transit set at 35 per cent (\$38.50) and 50 per cent (\$55) of the standard adult fare cap depending on the eligibility tier</i>			
<b>Remaining Fare Revenue Shortfall</b>	<b>(\$8.8)</b>	<b>(\$8.7)</b>	<b>(\$17.5)</b>

Fare Increase #2	2025	2026	Total

## Attachment 7

Projected Fare Revenue Budget Variance	(\$13.0)	(\$13.0)	(\$26.0)
Additional Revenue Generated	\$7.8	\$8.0	\$15.8
Scenario #2: <i>Arc single trip rate increases to \$3.50, standard adult monthly fare cap increases to \$120. Cash fare increases to \$4.25. Youth and seniors' monthly cap set at 65 per cent (\$78) of the standard adult fare cap. Ride Transit is set at 35 per cent (\$42) and 50 per cent (\$60) of the standard adult fare cap depending on the eligibility tier.</i>			
<b>Remaining Fare Revenue Shortfall</b>	<b>(\$5.2)</b>	<b>(\$5.0)</b>	<b>(\$10.2)</b>

If Council chooses to implement additional fare increases, any remaining revenue shortfall could be addressed through the LRT reserve, deferred transit service improvements, or tax levy.

#### 4. Tax levy

A fourth option that Council can consider would be using tax levy. The tax levy implication of the \$13 million annual gap is 0.6 per cent.

#### **Ongoing Activity to Review Fare Revenue**

In addition to the four options outlined in this attachment, Administration will continue to review measures to help address the fare revenue gap. These measures include increased presence of Transit Peace Officers conducting fare inspections, audio and visual reminders in LRT stations, increased rider outreach and education and enhanced safety measures. The User Fee Schedule in the fall 2024 Supplemental Operating Budget Adjustment also includes the addition of a new multi day Arc pass which could help to attract hybrid workers and visitors, as well as a change to the age range for the youth fare, to change the cap from age 24 to age 18, which can generate more revenue from the regular adult fare category for those aged 19-24 who do not access other fare products. In response to a Council motion, Administration is also preparing a report for Q1 2025 that will review the cost recovery targets in the Transit Fare Policy.